



- ECB's Holzmann suggests increasing the ECB's minimum reserve requirements ([link](#))
- Italian sovereign spreads widen after latest budget projection ([link](#))
- Foreign demand supports compression of US credit spreads ([link](#))
- EM issuances moderated last week, alongside heightened risk aversion ([link](#))
- Brazilian Real experienced longest depreciation streak in over two years ([link](#))
- China's central bank reiterated that it will firmly prevent excessive currency movements ([link](#))

[Mature Markets](#)







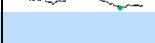



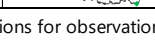
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Higher oil prices and higher-for-longer theme remain center stage in markets

European sovereign yields increased today, while US Treasury yields edged up in the early morning trading. On Wednesday, US oil prices reached their highest level since November 2022 amidst reports of a larger-than-expected drawdown in US crude inventories. Oil prices (active futures for both Brent and WTI) declined somewhat earlier today but remain close recent highs. The potential impact of higher oil prices on inflation feeds into the higher-for-longer narrative, which has driven global bond yields up over the past week(s). The market implied probability for one additional US rate hike increased this week from 48% to 54%, while market pricing for the ECB's policy rate path remains consistent with the "ECB is done" narrative that emanated after its last decisions. Germany's September inflation number (preliminary) came in lower than expected today, ahead of the euro area wide print tomorrow. While Bund yields reacted (downwards) marginally to the news, yield increased remain for today's trading session. On the US side, initial jobless claims came in lower than expected, and Fed Chair Jerome Powell will speak later today.

Key Global Financial Indicators

Last updated: 9/28/23 8:44 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4275	0.0	-3	-4	15	11
Eurostoxx 50		4133	0.1	-2	-4	24	9
Nikkei 225		31873	-1.5	-2	-1	21	22
MSCI EM		38	0.2	-2	-4	6	0
Yields and Spreads			bps				
US 10y Yield		4.64	4.3	15	44	91	77
Germany 10y Yield		2.94	9.8	20	37	82	37
EMBIG Sovereign Spread		423	0	12	5	-111	-29
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.8	0.1	-1	-3	-4	-6
Dollar index, (+) = \$ appreciation		106.3	-0.3	1	2	-6	3
Brent Crude Oil (\$/barrel)		96.0	-0.4	3	14	8	12
VIX Index (% change in pp)		18.4	0.1	1	3	-12	-3

Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

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United States

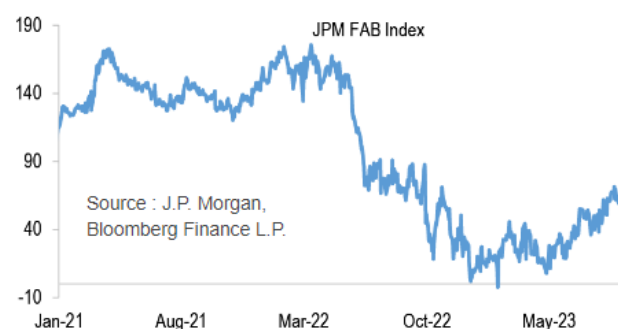
Initial and continuing jobless claims released today point to labor market resilience. Initial claims (for the week ending on Sep. 23) were posted at 204k (VS expected 215k), and continuing claims came in at 1670k (vs expected 1675k). The initial market reaction was muted immediately after the release with some volatility in the thin early morning Treasury market. Simultaneously released prints for personal consumption and GDP for Q2 (third release) showed a weaker than expected picture—this may have contributed to the muted (initial) market reaction.

Despite very low levels, US credit spreads remain attractive for foreign investors—thus, supporting valuations that are already considered tight. US credit spreads have been compressing despite an ongoing increase in the policy rate (left chart below), which contributed to the widening disconnect between corporate debt and corporate equity valuation. JP Morgan (JPM) analysts note that from the perspective of foreign investors, the FX-hedged investments in the US corporate debt are yielding more than investments in their domestic corporate bonds: the right chart shows that JPM's index of Foreign Attractiveness of US High Grade Bonds has increased recently, supporting strong inflows from overseas investors.

Figure 149: Fed Funds rate is now 525bp higher and yet HG spreads are unchanged over this hiking cycle



Figure 2: JPM Foreign Attractiveness of US HG Bonds



Euro Area

European sovereign yields increased sharply. The Stoxx 600 Europe index remains close to its lowest level in six months. Sovereign yields increased sharply (10y bund +6bps to 2.90%) with analysts pointing to higher oil prices as a key driver. The euro recovered versus the US dollar (+0.4% at around 1.054/\$) after closing 0.7% weaker yesterday with some contacts pointing to ETF selling from foreign investors.

ECB governing council member Holzmann suggested that the ECB could increase the minimum reserve requirement significantly, according to an interview published yesterday. Holzmann noted that banks have benefitted from unconventional policy during the crisis. Currently banks are required to hold 1% of certain liabilities at the ECB, and Holzmann said that he has 5%–10% in mind. The ECB announced in July that it would no longer pay interest on minimum reserves; previously reserves were remunerated at the deposit rate. In previous research Bank of America analysts estimated that a 1ppt increase in the minimum reserve requirement would lower the Eurosystem's cost by roughly €6bn next year. Moreover, analysts estimate that an increase in the minimum reserve requirement to 2% could reduce Italian banks' excess liquidity, net to TLTROs, to negative territory.

Exhibit 23: Excess liquidity net of (T)LTRO for banks in Italy

First positive reading at least since TLTROs were introduced

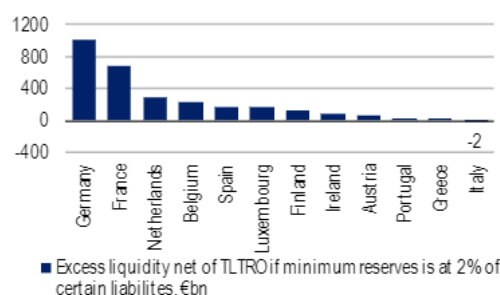


Source: BofA Global Research, Bank of Italy

BoFA GLOBAL RESEARCH

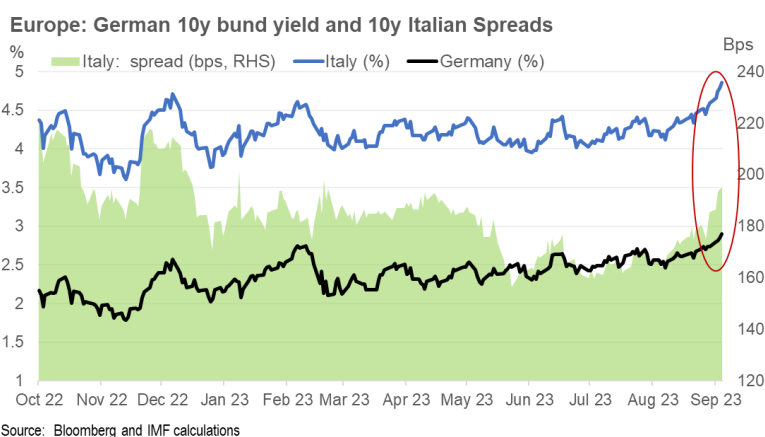
Exhibit 24: Excess liquidity net of (T)LTROs if min reserves rise to 2%

Risk of excess liquidity net of TLTROs in Italy falling back to negative territory



Italian spreads widened after the Italian government presented its latest budget projection.

Yesterday the Italian government agreed an updated multi-annual budgetary plan providing the framework for the draft 2024 budget, alongside new macroeconomic and fiscal projections. It showed an upward revision in the 2023 deficit to 5.3% of GDP (compared to an earlier estimated 4.5%) and also proposed a higher deficit target for 2024. HSBC analysts argue that while the 2024 deficit target might not have come as a surprise given recent press reports, it does underline the significant issuance needs in 2024. Moreover, analysts caution that a large structural deficit could see debt sustainability concerns resurface. The spread between Italian 10-year yields and Bunds of the same maturity widened to 196 bps this morning.

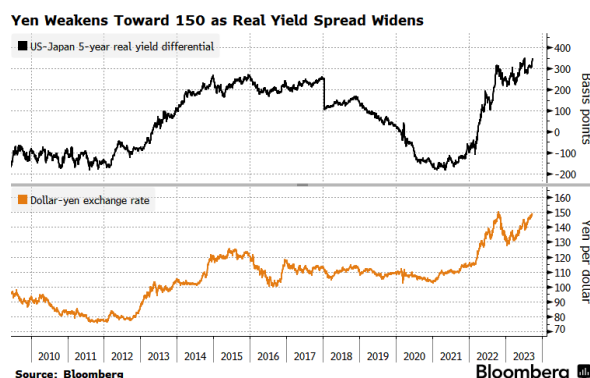


United Kingdom

This morning the pound was trading stronger against the dollar (+0.5%) while 10y gilt yields were sharply higher (+10bps to 4.46%), with analysts noting that yields are increasing globally amid higher oil prices. Markets are now close to fully pricing in another 25bps BoE hike by March 2024, compared to the start of this week when roughly 16bps of tightening was priced in by February 2024.

Japan

The Japanese yen depreciated slightly to 149 yen per dollar. The widening of real interest rate differentials continued putting depreciation pressure on the Japanese yen. As the yen was close to reach the 150 level, market participants were cautious about the FX intervention risk. This morning, Finance Minister Suzuki said that he was watching the currency movement with a strong sense of urgency.



Commodities

Crude oil prices rose further following a larger-than-expected drawdown in US crude inventory. Inventories at Cushing, Oklahoma—the delivery point for the US benchmark—dropped below 22 million barrels, the lowest since July 2022. Storage below 20 million barrels (~10–20% of Cushing's 98 million barrels capacity) is considered “operationally low”. At these levels, removing stored crude can be challenging as water and sediments often settle at the base of storage tanks. The physical tightness is attributed to supply cuts from Saudi Arabia and Russia and is reflected in the spread between forward prices for the nearest consecutive months; this “prompt spread” has exceeded \$2 and is approaching the decades-long record levels. Market reports suggest that demand from Commodity Trading Advisors (CTA) in the past few trading sessions, despite their stretched-positioning, could potentially push prices higher. Breakeven inflation rates have increased in line with oil prices.

Cushing Crude Stockpiles Are Approaching Critical Levels

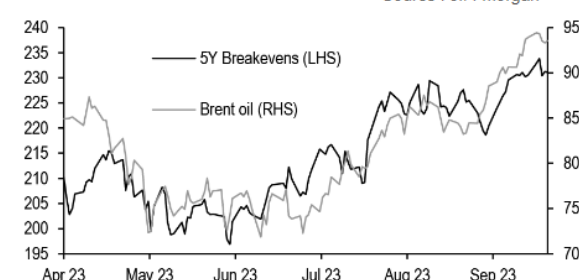
Plummeting supply is pushing up prompt price spread

■ DOE Cushing Oklahoma Crude Oil Total Stocks Data - Last Price on 9/22/23



9/25/23-forward settle 5-year breakevens (LHS; bp) versus rolling front Brent oil price (RHS; \$/bbl)

Source : J.P. Morgan



Nickel

Nickel prices are at a 14-month low due to fears of oversupply. Nickel prices touched their lowest level in 14-months on the London Mercantile Exchange (LME), declining 37% YTD. Nickel is among the worst performing major metals at the exchange. Rising supplies from new plants in Indonesia and China are estimated to increase LME-deliverable supplies by 35% compared to 2022 levels. Moreover, renewed fears over the situation of China's property market clouds its demand outlook. Trading activity has picked-up in after last year's liquidity squeeze, with the aggregate number of open nickel contracts rising since April.

Nickel Prices Plunge to 14-Month Low Amid Rising Supply

Trading activity has started to rebound in recent months



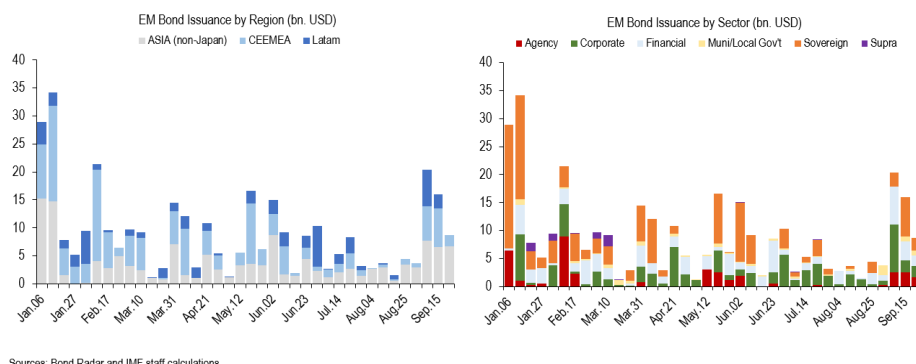
Emerging Markets

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EMEA currencies were mostly trading stronger against the dollar while CEE currencies weakened against the euro. On the data front, August PPI in Hungary fell in annual terms for the first time since 2016 (-2.3%/y from +1.3%). A separate data release showed economic confidence in Türkiye increased to 95.4 in September (from 94.1). **Asian markets** did not have a clear direction today, whereby equities were mixed, gaining 0.3% overall. **Latin American regional currencies and bonds continued to weaken yesterday, following concerns of a resurgence of inflationary pressures from higher oil prices.** LATAM currencies depreciated, led by Brazilian Real (-1.06%) as carry trades soured on the prospects of higher-than-expected policy rates in advanced economies. Local currency bond prices continued their decline, with benchmark 10-year yields in Colombia, Mexico and Brazil rising by +22bps, +13bps and +10bps, respectively. **The governments of Panama and Guatemala successfully tapped the international market for dollar-denominated bonds. Mexico's central is expected to hold its policy rate at 11.25% later today for the fourth time.**

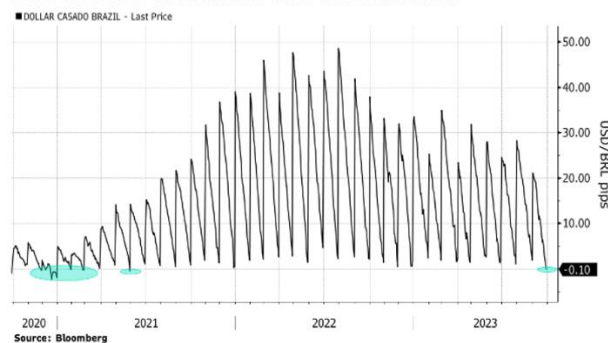
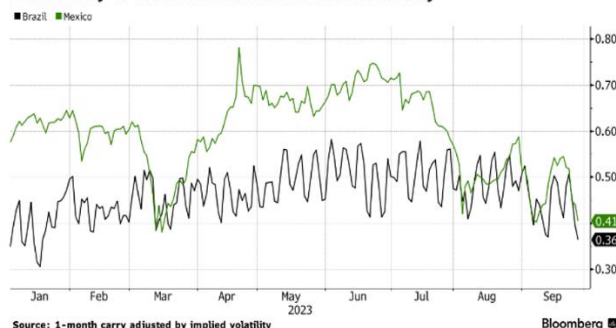
EM Bond Issuance

EM issuances moderated for the week ending Sep. 22, alongside heightened risk aversion. EMs sold \$8.7bn of bonds last week (\$5.9bn were USD-denominated issuances), nearly half the volume of the prior week. \$2.2bn were sovereign bonds, \$3.9bn were corporate/financial bonds, \$1.7bn were agency bond and \$0.9bn were local government bonds. The UAE (\$1.5bn 10-yr tranche), Hyundai Capital (\$2.6bn, spread across 3, 5 and 7-yr tranches) and Korea Housing Corp. (€1bn, 4-yr tranche) were notable issuers. Post-issue performance was supported despite recent risk aversion, reflected by the -7bps spreads tightening of the benchmark 5-year Hyundai Capital issuance. All issuances were fixed-rate bonds. Most (\$6.7bn) of the new issuances were investment grade, \$0.4bn were high yield while \$1.5bn did not carry international ratings. YTD total EM issuance now stands at \$347.0 bn.



Brazil

The real (BRL) has depreciated for 7 consecutive trading sessions, its longest depreciation streak since 2021. Market participants noted that outflows in the past few trading sessions have pushed the “casado” (difference between FX spot and shortest future contract negotiated at the local exchange) into negative spread. The “backwardation” (higher spot price compared to shortest-future price) is rare, given the higher local BRL rates, compared to US rates. This phenomenon typically occurs during times of exacerbated demand for US Dollar. Recent increase in currency volatility also reduces the attractiveness of carry trades, which benefited EM currencies earlier in the year, fueling the unwinding of positioning. The BRL’ carry-to-volatility ratio is now lowest since January, similar to peers including the Mexican peso. The central bank posted a net foreign exchange outflow of \$3.65 bn between Sep. 18 and 22. Today, the Brazil’s central bank also released its quarterly inflation report. The central bank adjusted its growth outlook for 2023 upwards, while also warning that this reflects transitory factors.

Rare Moments of Brazilian Real Backwardation**Volatility Spike Weighs on Carry**
Brazil's carry-to-vol ratio at the lowest level since January**China**

The People's Bank of China (PBoC) reiterated that it will firmly prevent excessive currency movements in its quarterly monetary policy meeting statement. Today, Chinese equities gained (CSI 300: +0.2%), however, real estate stock prices fell. The controlling shareholder of distressed property developer China Evergrande has reportedly been placed under police control earlier this month. Elsewhere, the local government debt swap program started. The Inner Mongolia region issued special "refinancing" bonds worth 66bn yuan (\$9bn).

Thailand

Yesterday, the Bank of Thailand (BOT) raised its policy rate by 25bps to 2.5%, while a "hold" was expected. The decision was unanimous. While inflation is running below the BOT's 1%–3% target, the BOT moved preemptively to curb inflationary pressures that could arise from the government's proposed economic stimulus. In recent weeks, the Thai baht and government bonds had been underperforming amid concerns on additional government borrowing to finance the stimulus measures. Separately, the BOT relaxed criteria related to Thai baht transactions that nonresidents can do with domestic financial institutions. The policy relaxation aims to reduce the costs for businesses conducting FX transactions and to support the development of the FX market ecosystem. The Thai baht depreciated (-0.5%).

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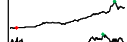




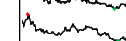




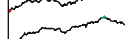

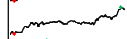



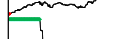




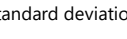






Global Financial Indicators

9/28/23 8:44 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4275	0.0	-3	-4	15	11
Europe		4133	0.1	-2	-4	24	9
Japan		31873	-1.5	-2	-1	21	22
China		3690	-0.3	0	-3	-4	-5
Asia Ex Japan		63	0.3	-2	-3	5	-2
Emerging Markets		38	0.2	-2	-4	6	0
Interest Rates			basis points				
US 10y Yield		4.64	4.3	15	44	91	77
Germany 10y Yield		2.94	9.8	20	37	82	37
Japan 10y Yield		0.76	2.0	2	10	51	34
UK 10y Yield		4.51	15.5	20	7	50	84
Credit Spreads			basis points				
US Investment Grade		147	0.9	5	3	-40	-11
US High Yield		429	-3.6	27	12	-103	-51
Exchange Rates			%				
USD/Majors		106.33	-0.3	1	2	-6	3
EUR/USD		1.05	0.4	-1	-3	8	-1
USD/JPY		149.3	-0.2	1	2	4	14
EM/USD		46.8	0.1	-1	-3	-4	-6
Commodities			%				
Brent Crude Oil (\$/barrel)		96.0	-0.5	3	15	24	17
Industrials Metals (index)		142	1.5	1	0	0	-14
Agriculture (index)		65	-0.4	-1	-5	-5	-6
Implied Volatility			%				
VIX Index (%, change in pp)		18.4	0.1	0.9	3.3	-11.8	-3.3
Global FX Volatility		8.3	0.0	0.1	0.0	-5.0	-2.4
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		153	-0.8	11	20	-121	-53
Italy		197	2.2	16	31	-44	-18
Portugal		77	-0.9	3	6	-31	-25
Spain		110	0.5	4	8	-8	1

Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 9/28/2023 8:46 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		7.30	0.1	0.0	0	-1	-6		2.7	0.0	2	11	-13	-34
Indonesia		15520	-0.2	-0.9	-1	-3	0		6.9	1.0	12	35	-50	-7
India		83	0.0	-0.1	-1	-2	-1		7.8	5.0	-6	16	9.0	32
Philippines		57	-0.1	-0.2	-1	4	-2		5.8	0.0	3	-10	8	-17
Thailand		37	-0.6	-1.6	-4	4	-6		3.4	6.5	19	42	9	76
Malaysia		4.71	-0.4	-0.5	-1	-2	-6		4.0	-0.1	5	13	-48	-6
Argentina		350	0.0	0.0	0	-58	-49		116.9	30.7	208	835	3298	2868
Brazil		5.04	-1.1	-3.3	-3	7	5		12.0	14.4	58	86	18	-54
Chile		906	0.6	-1.9	-6	6	-6		5.8	0.2	32	39	-114	46
Colombia		4094	-0.7	-4.3	0	11	19		9.4	-0.5	62	129	-46	-39
Mexico		17.65	0.1	-2.4	-5	14	10		9.7	17.5	56	93	29	98
Peru		3.8	-0.7	-2.3	-3	4	0		7.4	16.1	47	48	-113	-55
Uruguay		39	-0.7	-1.1	-2	7	4		9.5	1.7	9	31	-200	-121
Hungary		373	0.3	-2.4	-5	14	0		7.4	22.0	42	46	-229	-218
Poland		4.40	0.3	-1.5	-6	12	0		5.0	11.5	19	6	-180	-117
Romania		4.7	0.4	-1.2	-3	8	-2		6.7	0.7	12	8	-165	-97
Russia		96.9	0.1	-0.9	-2	-40	-23							
South Africa		19.1	0.4	-1.0	-3	-7	-11		10.1	15.0	47	73	45	92
Turkey		27.40	-0.7	-1.0	-3	-32	-32		27.5	15.0	184	594	1574	1767
US (DXY; 5y UST)		106	-0.3	0.9	2	-6	3		4.72	3.4	10	32	77	72

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					YTD	Level		Change (in basis points)			YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	Last 12m		Latest	7 Days	30 Days	12 M		
									basis points					
China		3690	-0.3	0	-3	-4	-5		181	1	0	-3	4	
Indonesia		6938	0.0	-1	0	-2	1		123	-3	-5	-62	-17	
India		65508	-0.9	-1	1	16	8		137	0	0	-34	-5	
Philippines		6386	0.2	5	3	8	-3		99	-3	-4	-45	2	
Thailand		1482	-1.0	-2	-6	-7	-11		0	0	0	0	0	
Malaysia		1440	0.0	-1	0	3	-4		96	-1	-1	-5	-4	
Argentina		557023	2.5	-1	-16	304	176		2400	142	321	-303	195	
Brazil		114327	0.1	-4	-2	5	4		225	2	-5	-89	-49	
Chile		5763	0.0	-2	-4	13	10		124	1	-4	-61	-8	
Colombia		1108	1.7	1	0	-2	-14		333	14	-13	-129	-39	
Mexico		51427	0.6	-2	-4	13	6		372	11	3	-97	-9	
Peru		22529	-0.3	-1	-3	17	6		154	0	-5	-69	-26	
Hungary		55842	-0.2	0	-2	48	28		187	2	-13	-95	-35	
Poland		64615	-0.4	-3	-6	36	12		114	-5	-5	69	41	
Romania		14226	0.8	-1	9	33	22		197	-4	-17	-143	-59	
South Africa		72267	0.1	-3	-4	13	-1		390	19	7	-76	23	
Turkey		8227	0.2	3	4	157	49		376	-3	-7	-233	-64	
Ukraine		507	0.0	0	0	-2	-2		3325	98	-251	-380	-754	
EM total		38	-0.5	-2	-4	6	0		388	14	10	-73	13	

Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

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